SAE 3420 - Assurance engagements to report on the compilation of Proforma Financial Information (PFFI) included in a prospectus	
Note:	*Management word is replaced by ''Responisbile party'' or ''entity'' and ''Auditor'' is replaced by Practitioner*
SCOPE	When Report on PFFI included in Propectus is required by law in whose jurisdiction prospectus is issued When Reporting on PFFI included in Propectus is generally accepted practice in such jurisdiction
OBJECTIVES	1. To obtain reasonable assurance that PFFI has been compiled on the basis of the applicable criteria 2. To report in accordance with the practitioner's findings
DEFINITIONS	1. *Applicable Criteria* : criteria used by the responsible party when compiling the PFFI (Generally esablished by law. If not, will be developed by the responsible party) 2. *Pro forma adjustments:* Adjustments to unadjusted financial info. - *(i).* that illustrate the impact of a significant event or transaction ("event" or "transaction") as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration (ii).that are necessary for the PFFI to be consistent with the applicable FRF and a/c policies of the reporting entity. 3. *Pro forma financial information* : Financial information shown together with adjustments to illustrate the impact of an event or transaction on unadjusted financial information as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration 4. *Unadjusted financial information:* Financial information of the entity to which pro forma adjustments are applied by the responsible party **Note:** Unadjusted Financial Information + Proforma adjustments = Pro Forma Financial Information
REQUIREMENTS:	
I. Engagement Acceptance (Whether to accept or not)	1. Determine that the practitioner has the capabilities and competence to perform the engagement. Whether he has knowledge/understanding of : (i). industry in which the entity operates (ii). relevant securities laws and regulations and related developments (iii). process of preparing a prospectus and listing securities on the securities exchange (iv). the FRF used in the preparation of the sources from which the unadjusted financial information and, if applicable, the acquiree's financial information have been extracted 2. it is unlikely that the pro forma financial information will be misleading for the purpose for which it is intended 3. Where the sources from which the unadjusted financial information and any acquiree or divestee financial information have been extracted have been audited or reviewed and a modified audit opinion or review conclusion has been expressed, or the report contains an Emphasis of Matter paragraph, consider whether or not the relevant law or regulation permits the use of, or reference in the practitioner's report to, the modified audit opinion or review conclusion or the report containing the Emphasis of Matter paragraph with respect to such sources 4. If the entity's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the entity and its accounting and financial reporting practices to perform the engagement; 5. If the event or transaction includes an acquisition and the acquiree's historical financial information has never been audited or reviewed, consider whether the practitioner can obtain a sufficient understanding of the acquiree and its accounting and financial reporting practices to perform the engagement

	6. Obtain the agreement of the responsible party that it acknowledges and understands its responsibility for : (i). Adequately disclosing and describing the applicable criteria to the intended users if these are not publicly available (ii). Compiling the pro forma financial information on the basis of the applicable criteria (iii). Providing the practitioner with : a. Access to all information - records, documentation and other material b. Additional information c. Access to those within the entity and the entity's advisors d. access to appropriate individuals within the acquiree(s) in a business combination
II. STEPs in performing the engagement if accepted	
STEP 1: Assessing the Suitability of the Applicable Criteria	1. Whether applicable criteria requires that unadjusted financial information be extracted from an appropriate source 2 Whether applicable criteria requires that The pro forma adjustments be : (i). Directly attributable to the event or transaction (ii). Factually supportable (For eg. sources of factual support - Purchase and sale agreements, Independent valuation reports, Published financial statements, Employment agreements etc.,) (iii). Consistent with the entity's applicable FRF and its accounting policies 3. Whether applicable criteria requires that Appropriate presentation and disclosures should be made to enable the intended users to understand the information conveyed 4. Whether applicable criteria is Consistent, and do not conflict, with relevant law or regulation 5. Whether applicable criteria is Unlikely to result in misleading PFFI
STEP 2 : Understanding How the Responsible Party Has Compiled the PFFI	By Understanding : 1. The event or transaction in respect of which the PFFI is being compiled 2. How the responsible party has compiled the pro forma financial information wrt :. (i). Source of unadjusted financial information (ii). How it has Extracted the unadjusted financial information from the source (iii). How it has identifed the appropriate pro forma adjustments 3. responsible party's competence in compiling pro forma financial information 4. The nature of the entity and any acquiree or divestee, including : (i) Their operations; (ii) Their assets and liabilities; and (iii) The way they are structured and how they are financed 5. the Relevant industry factors pertaining to the entity and any acquiree or divestee such as : (i). The market and competition, including demand, capacity, and price competition (ii). Common business practices within the industry (iii). Cyclical or seasonal activity (iv). Product technology relating to the entity's products 6. the Relevant legal and regulatory factors pertaining to the entity and any acquiree or divestee such as : (i). Industry-specific accounting practices (ii). Legal and regulatory framework for a regulated industry (iii). Taxation. (iv). Government policies currently affecting the conduct of the business. (v). Environmental requirements 7. the Relevant other external factors pertaining to the entity and any acquiree or divestee such as : (i). General economic conditions (ii). Interest rates (iii). availability of financing (iii).inflation (iv). currency revaluation. 8. The applicable FRF and the accounting and FR practices of the entity / acquiree / divestee

STEP 3 : Checking source of Unadjusted Financial Information.	1. Factors to determine appropriateness of the source : (i). whether the source Is permitted or specifically prescribed by the relevant law or regulation, (ii). whether the source Is clearly identifiable (iii). whether the source Represents a reasonable starting point for compiling the PFFI 2. If there is no audit or review report on the source --> perform procedures to be satisfied that the source is appropriate --> By inquiring the responsible party about : (i). The process by which the source has been prepared (ii). Whether all transactions have been recorded (iii). Whether the source has been prepared in accordance with the entity's accounting policies (iv). Whether any changes in accounting policies from the most recent audited or reviewed period & how they've been dealt (v). Its assessment of the risk that the source may be materially misstated as a result of fraud. (vi). The effect of changes in the entity's business activities and operations. 3. whether the responsible party has appropriately extracted the unadjusted financial information from the source 4. If Modified Audit Opinion or EOM to the source --> if the relevant law or regulation does not prohibit the use of such a source : (i). Evaluate potential consequence on whether the PFFI has been compiled as per applicable criteria (ii). further appropriate action to take (iii). any effect on the practitioner's ability to report in accordance with the terms of the engagement, including any effect on the practitioner's report.
STEP 4.1: Checking the Appropriateness of the Pro Forma Adjustments **STEP 4.2** : whether the pro forma adjustments are in accordance with the applicable criteria	1. Check reasonableness of the responsible party's approach to identifying the appropriate pro forma adjustments 2. Inquire relevant parties of acquiree regarding the entity's approach to extracting the acquiree financial information 3. Evaluate specific aspects of the relevant contracts, agreements or other documents 4. Inquire the entity's advisors regarding specific aspects of the event or transaction that are relevant to the identification of appropriate adjustments 5. Evaluate relevant analyses and worksheets prepared by the responsible party and other entity personnel 6. Check responsible party's oversight of other entity personnel involved in compiling the pro forma financial information 7. Perform analytical procedures 1. Whether pro forma adjustments are --> Directly attributable to the event or transaction 2. Whether pro forma adjustments are --> Factually supportable. 3. Whether pro forma adjustments are --> Consistent with the entity's applicable FRF and accounting policies
STEP 5 : Source of : (i). Unadjusted Financial information [Step 3] or (ii). Pro Forma Adjustments [Step 4.1] Not Appropriate	1. discuss the matter with the responsible party. 2. If the practitioner is unable to agree with the responsible party : (i). Give Modified audit opinion or EOM (ii). withdrawing from the engagement if possible (iii). Seek legal advice

STEP 6 : Evaluating the Presentation of the PFFI	1. overall presentation and structure of the PFFI should be clearly labeled to distinguish it from historical or other financial information. 2. PFFI and related explanatory notes should illustrate the impact of the event or transaction in a manner that is not misleading i.e, it should not - (i). Contain a materially false or misleading statement; (ii). Contain statements or information furnished negligently; (iii). Omit or obscure any information required to be included where such omission or obscurity would be misleading 3. appropriate disclosures should be provided viz., (i). Nature and purpose of PFFI (ii). Source of unadjusted financial information (iii). pro forma adjustments, including a description and explanation of each adjustment (iv). If not publicly available, a description of the applicable criteria on the basis of which the pro forma financial information has been compiled (v). A statement to the effect that the PFFI has been compiled for illustrative purposes only and that, because of its nature, it does not represent the entity's actual financial position, financial performance, or cash flows 4. Whether the practitioner has become aware of any significant events subsequent to the date of the source from which the unadjusted financial information has been extracted that may require reference to, or disclosure in, the PFFI 5. Read the other information included in the prospectus containing the PFFI to identify material inconsistencies, if any. If correction of the matter is necessary and the responsible party refuses to do so, the practitioner shall take further appropriate action : (i). Give Modified audit opinion or EOM (ii). withdrawing from the engagement if possible (iii). Seek legal advice
STEP 7: Written Representations	1.responsible party has identified all appropriate pro forma adjustments necessary to illustrate the impact of the event or transaction at the date or for the period of the illustration 2. PFFI has been compiled, in all material respects, on the basis of the applicable criteria
STEP 8: Forming an Opinion	1. Opinion on : (i). whether the PFFI has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria. (ii). whether the practitioner has obtained SAAE about whether the compilation of the PFFI is free from material omissions, or inappropriate use or application of a pro forma adjustment (iii). whether the responsible party has adequately disclosed and described the applicable criteria to the extent that these are not publicly available 2. Types of Opinion : (i). Unmodified --> If 1.(i). Is satisfied (ii). Modified Opinion ---> > <u>Case I</u>: If relevant law/regulation does not allow publication of a prospectus with a modified opinion - Discuss the matter with the responsible party. If the responsible party does not agree to make the necessary changes, otherwise: (a) Withdraw from the engagement; or (b) Consider seeking legal advice. > <u>Case II:</u> Other Case - Give modified opinion as required. 3. EOM : If it is necessary to draw users' attention to a matter presented or disclosed in the PFFI or the accompanying explanatory notes
STEP 9: Preparing the Report (Format)	1. Title 2. An addressee 3. Introductory paragraphs that identifies : (i). The PFFI (ii). The source of unadjusted financial information (iii). The period covered by the PFFI (iv). A reference to the applicable criteria

	4. A statement that the responsible party is responsible for compiling the pro forma financial information on the basis of the applicable criteria; 5. A description of the practitioner’s responsibilities viz., : (i). practitioner’s responsibility is to express an opinion about whether the pro forma financial information has been compiled, in all material respects, by the responsible party on the basis of the applicable criteria (ii). practitioner is not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the PFFI, nor has the practitioner, in the course of this engagement, performed an audit or review of the financial information used in compiling the PFFI. (iii). The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 6. A statement that the engagement was performed in accordance with SAE 3420, ‘Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus’, 7. Statements that : (i). Ths Engagement involves performing procedures to : a. assess whether the applicable criteria used by the responsible party in the compilation of the PFFI provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction b. obtain SAAE about whether pro forma adjustments give appropriate effect to those criteria and the PFFI reflects the proper application of those adjustments to the unadjusted financial information (ii). The procedures selected depend on the practitioner’s judgment (iii). The engagement also involves evaluating the overall presentation of the pro forma financial information; 8. Opinion Paragraph 9. Signature 10. date of the report 11. place of signature